International Coffee Organization
Organización Internacional del Café
Organização Internacional do Café
Organisation Internationale du Café

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LETTER FROM THE EXECUTIVE DIRECTOR

COFFEE MARKET REPORT

September 2007

The most significant event of September was the approval of a new International Coffee Agreement. This Agreement contains major innovations that make it possible to further strengthen international cooperation on coffee, in particular the creation of a Promotion and Market Development Committee, a Projects Committee responsible for the preparation of projects and fund-raising and a Consultative Forum on Coffee Sector Finance. Inasmuch as the new Agreement has abolished the Executive Board, these new bodies are designed to assist the Council in its deliberations. The Council also resolved to extend the International Coffee Agreement 2001 for a period of one year from 1 October 2007 in order to allow sufficient time for countries to complete the procedures required for the entry into force of a new Agreement. Another feature of the new Agreement is that it will remain in force for a period of ten years, with a possible extension for another eight years. At the end of this Letter I will provide a brief outline of the main features of the International Coffee Agreement 2007.

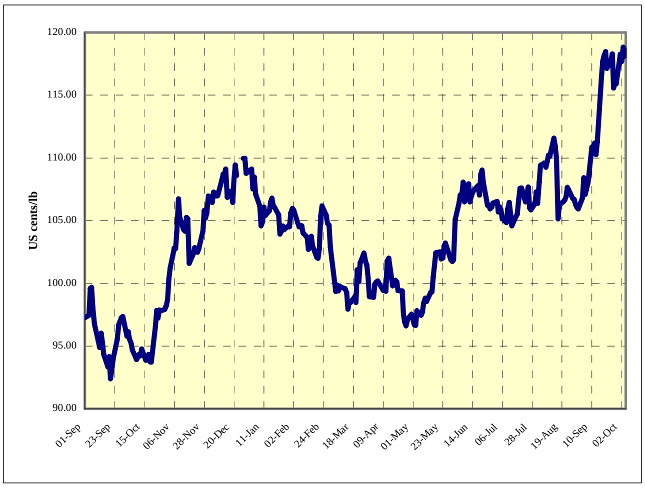
With regard to the behaviour of the coffee market during September, it may be noted that prices recorded a further increase, with a significantly higher volatility than in previous months. This was a result of intensive speculative movements on the consequences of a prolonged absence of rain in Brazil, which continued to affect the market. Adverse weather conditions in other exporting countries, namely an earthquake in Indonesia and floods in many countries in Africa, Central and North America, and Asia also contributed towards increased volatility. Table 1 contains data on this matter for the last 12 months. The ICO indicator price increased from 106.77 US cents/lb at the beginning of September to 115.90 at the end of the month after reaching a peak of 118.46 US cents/lb, the highest level for almost a decade. Cumulative exports for the first eleven months of coffee year 2006/07 (October – August) totalled 89.47 million bags, an increase of 10.71% compared with the same period in coffee year 2005/06 when the figure was 80.82 million bags. However, exports during August 2007 fell by 12.56% compared to the level recorded in August 2006, down from 8.73 million bags to 7.64 million bags as a result of the fall in exports from Brazil and Vietnam.

Price movements

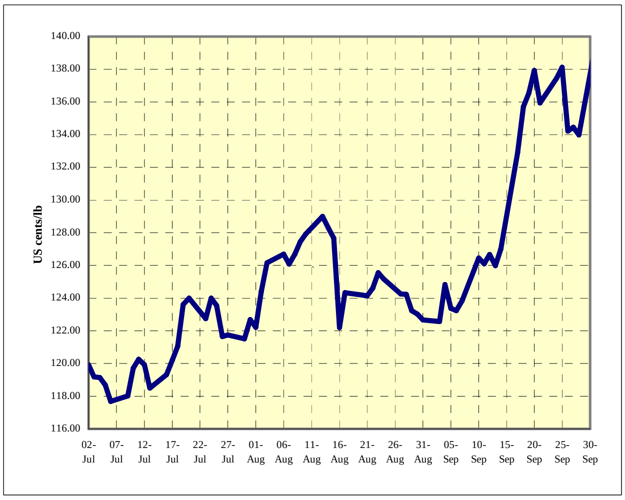
Prices continued to rise during September with the monthly average of the **ICO composite indicator price** at 113.20 US cents/lb compared to 107.98 US cents/lb in August and 106.20 US cents/lb in July (Table 1). This monthly average for September 2007 is the highest recorded since May 1998. The composite indicator price reached 118.46 US cents/lb on 20 September. Graph 1 shows changes in the ICO daily composite indicator price since 1 September 2006. The price recorded on 10 October was 117.95 US cents/lb.

Graphs 2 to 5 show changes in daily indicator prices for the four groups of coffee since 2 July 2007.

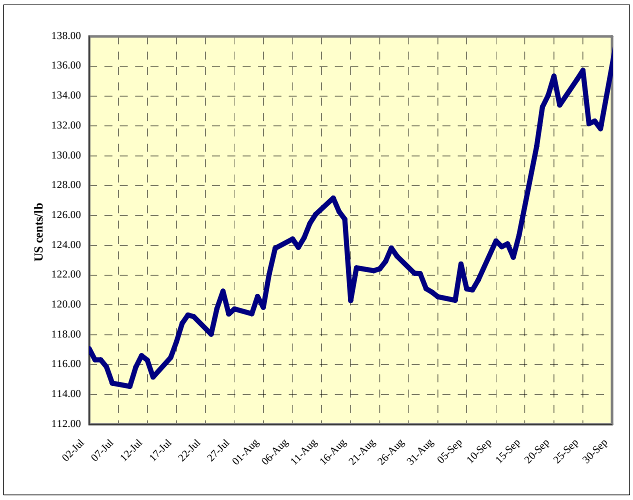
Graph 1: Daily composite indicator price 1 September 2006 – 10 October 2007



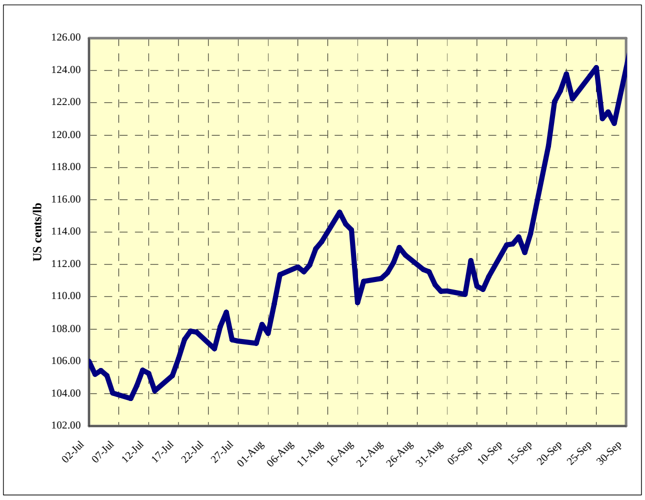
Graph 2: Daily indicator prices for Colombian Milds 2 July – 30 September 2007



Graph 3: Daily indicator prices for Other Milds 2 July – 30 September 2007



Graph 4: Daily indicator prices for Brazilian Naturals 2 July – 30 September 2007



Graph 5: Daily indicator prices for Robustas 2 July – 30 September 2007

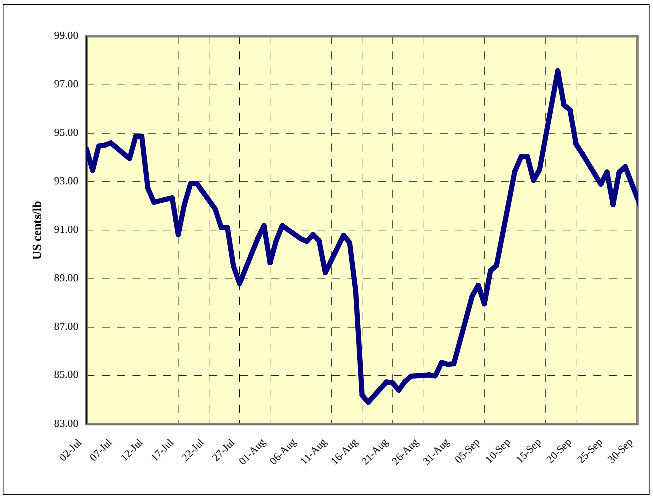


Table1: ICO daily indicator prices and futures prices (US cents/lb) – September 2007

	ICO composite	Colombian Milds	Other Milds	Brazilian Naturals	Robustas	New York*	London*
Sep-07							
03-Sep	106.77	122.57	120.32	110.14	88.29	Holiday	79.97
04-Sep	108.41	124.84	122.75	112.25	88.73	119.78	80.44
05-Sep	107.09	123.37	121.08	110.65	87.96	117.85	79.61
06-Sep	107.47	123.24	121.01	110.47	89.33	118.58	80.56
07-Sep	108.01	123.84	121.68	111.25	89.55	118.78	81.58
10-Sep	110.86	126.46	124.29	113.20	93.42	121.65	83.42
11-Sep	110.96	126.11	123.91	113.27	94.04	121.35	84.03
12-Sep	111.19	126.67	124.09	113.70	94.03	121.90	84.12
13-Sep	110.28	125.98	123.21	112.73	93.05	121.17	83.12
14-Sep	111.26	127.01	124.68	113.90	93.50	122.48	85.07
17-Sep	116.42	132.91	130.64	119.33	97.58	129.08	86.32
18-Sep	117.72	135.70	133.26	122.06	96.16	131.83	85.46
19-Sep	118.14	136.54	134.05	122.73	95.95	135.72	85.50
20-Sep	118.46	137.92	135.35	123.79	94.55	137.45	84.80
21-Sep	117.15	135.93	133.39	122.25	94.16	134.40	82.98
24-Sep	117.76	137.46	135.14	123.69	92.90	137.05	83.57
25-Sep	118.30	138.13	135.73	124.18	93.40	137.60	84.19
26-Sep	115.56	134.22	132.15	121.01	92.06	133.35	82.78
27-Sep	116.20	134.45	132.33	121.43	93.39	133.65	83.62
28-Sep	115.90	133.99	131.81	120.73	93.62	133.30	84.35
Sep-07	**113.20**	**130.37**	**128.04**	**117.14**	**92.78**	**127.74**	**83.27**
2006							
September	95.98	111.88	109.83	99.53	77.11	108.57	67.49
October	95.53	112.67	110.63	99.23	75.17	109.74	66.81
November	103.48	123.95	122.27	110.04	76.79	120.99	69.02
December	108.01	131.41	128.44	117.36	76.67	128.96	68.60
2007							
January	105.81	126.07	124.53	112.50	79.13	123.76	71.10
February	104.18	123.82	122.03	110.03	79.08	119.74	71.09
March	100.09	118.33	117.08	104.91	77.00	114.38	69.16
April	99.30	116.11	114.60	102.22	79.58	112.29	72.03
May	100.09	115.01	113.24	101.49	83.91	111.28	76.26
June	107.03	121.20	119.33	107.32	92.68	118.22	84.82
July	106.20	120.78	117.63	106.24	92.51	115.61	84.50
August	107.98	125.22	123.19	111.73	87.44	121.64	79.91
September	113.20	130.37	128.04	117.14	92.78	127.74	83.27
annual averages							
2000	64.24	102.60	87.07	79.86	41.41	94.58	40.11
2001	45.59	72.05	62.28	50.70	27.55	58.86	23.92
2002	47.74	64.91	61.54	45.25	30.02	57.02	25.88
2003	51.91	65.33	64.20	50.31	36.95	65.24	34.11
2004	62.15	81.44	80.47	68.97	35.99	79.53	32.84
2005	89.36	115.73	114.86	102.29	50.55	111.38	46.80
2006	95.75	116.80	114.40	103.92	67.55	112.30	59.77
% variation between Sep-07 and Aug-07							
	4.83	4.11	3.94	4.84	6.11	5.01	4.21
% variation between Sep-07 and Sep-06							
	17.94	16.52	16.58	17.69	20.33	17.65	23.39
% variation between Sep-07 and 2006 average							
	18.22	11.62	11.93	12.72	37.36	13.74	39.32
volatility (%)							
Sep-06	1.16	1.05	1.07	1.22	1.82	1.36	2.16
Oct-06	0.87	1.00	0.97	1.07	1.09	1.14	1.27
Nov-06	1.28	1.23	1.26	1.26	1.78	1.56	1.87
Dec-06	0.92	1.05	1.03	1.13	0.99	1.74	1.23
Jan-07	0.83	0.75	0.77	0.76	1.32	1.27	1.36
Feb-07	0.84	0.89	0.89	0.98	1.04	1.05	1.07
Mar-07	1.11	0.97	1.08	1.07	1.59	1.72	1.39
Apr-07	0.98	1.01	1.08	1.19	1.14	1.18	1.27
May-07	0.73	0.74	0.77	0.85	0.95	1.25	0.86
Jun-07	0.90	0.79	0.81	0.79	1.64	1.17	1.28
Jul-07	0.76	0.91	0.84	0.85	1.10	1.44	1.40
Aug-07	1.17	1.22	1.26	1.18	1.32	1.89	1.14
Sep-07	**1.48**	**1.59**	**1.63**	**1.59**	**1.70**	**1.98**	**1.28**

*Averages of 2nd and 3rd positions

Table 2: Production in selected exporting countries

Crop year commencing	2003	2004	2005	2006	% change 2005-2006
TOTAL	**103 731**	**115 914**	**109 986**	**121 185**	**10.18**
Africa	***13 880***	***14 854***	***13 761***	***14 490***	***5.30***
Cameroon	900	727	849	750	-11.62
Côte d'Ivoire	2 689	2 301	2 396	2 482	3.60
Ethiopia	3 874	5 000	4 527	5 000	10.44
Kenya	673	756	685	817	19.13
Tanzania	612	763	721	750	4.04
Uganda	2 599	2 593	2 159	2 350	8.86
Others	2 533	2 713	2 424	2 341	-3.42
Arabicas	*6 468*	*8 171*	*6 875*	*7 612*	*10.71*
Robustas	*7 412*	*6 682*	*6 886*	*6 878*	*-0.11*
Asia & Oceania	***28 761***	***28 813***	***29 299***	***29 332***	***0.11***
India	4 508	4 672	4 617	4 750	2.87
Indonesia	6 571	7 536	8 659	6 770	-21.82
Papua New Guinea	1 155	998	1 268	781	-38.45
Thailand	827	884	999	975	-2.44
Vietnam	15 231	14 174	13 595	15 500	14.01
Others	470	548	160	557	247.70
Arabicas	*3 618*	*3 573*	*3 736*	*3 122*	*-16.43*
Robustas	*25 144*	*25 240*	*25 563*	*26 210*	*2.53*
Mexico & Central America	***16 768***	***15 814***	***17 154***	***16 208***	***-5.52***
Costa Rica	1 783	1 887	1 778	1 799	1.21
El Salvador	1 477	1 437	1 502	1 242	-17.31
Guatemala	3 610	3 703	3 676	3 817	3.85
Honduras	2 968	2 575	3 204	2 700	-15.74
Mexico	4 200	3 867	4 000	4 200	5.01
Nicaragua	1 547	1 130	1 718	1 275	-25.79
Others	1 183	1 214	1 277	1 174	-8.04
Arabicas	*16 753*	*15 799*	*17 023*	*16 074*	*-5.57*
Robustas	*16*	*15*	*132*	*133*	*1.24*
South America	***44 322***	***56 434***	***49 771***	***61 155***	***22.87***
Brazil	28 820	39 272	32 944	42 512	29.04
Colombia	11 197	12 033	12 329	12 200	-1.04
Ecuador	766	938	1 138	1 172	2.96
Others	3 539	4 191	3 361	5 271	56.87
Arabicas	*35 446*	*48 690*	*40 103*	*51 346*	28.03
Robustas	*8 876*	*7 743*	*9 668*	*9 810*	1.46
TOTAL	**103 731**	**115 914**	**109 986**	**121 185**	**10.18**
Colombian Milds	12 250	13 345	13 461	13 481	0.15
Other Milds	25 134	25 207	25 271	26 239	3.83
Brazilian Naturals	24 901	37 681	29 006	38 433	32.50
Robustas	41 447	39 681	42 248	43 031	1.85
Arabicas	62 284	76 233	67 738	78 154	15.38
Robustas	41 447	39 681	42 248	43 031	1.85
TOTAL	**100.00**	**100.00**	**100.00**	**100.00**	
Colombian Milds	11.81	11.51	12.24	11.12	
Other Milds	24.23	21.75	22.98	21.65	
Brazilian Naturals	24.01	32.51	26.37	31.71	
Robustas	39.96	34.23	38.41	35.51	
Arabicas	60.04	65.77	61.59	64.49	
Robustas	39.96	34.23	38.41	35.51	

In thousand bags

Market fundamentals

Crop year 2007/08 has almost ended in most production areas of Brazil, with the latest official estimates indicating a crop of 32.62 million bags. In many other exporting countries the crop year has just begun. My estimates of **world production** for crop year 2007/08 remain unchanged at around 114 million bags.

Crop year 2006/07 has ended in all exporting countries. The latest figures provided by Members confirm a world production level of 121.19 million bags (Table 2). Estimates for the 2008/09 Brazilian crop will only become available at the beginning of December 2007.

Exports during August 2007 totalled 7.64 million bags, representing a fall of 5.6% compared to the volume of 8.09 million bags in July. Cumulative exports for the first eleven months of coffee year 2006/07 (October 2006 – August 2007) totalled 89.47 million bags, an increase of 10.71% compared with the same period in coffee year 2005/06 when the level was 80.82 million bags (Table 3).

Table 3: Exports
October – August (2005/06 and 2006/07)

	2005/06	2006/07	% variation
TOTAL	**80.82**	**89.47**	**10.71**
Colombian Milds	10.85	11.21	3.36
Other Milds	19.06	19.56	2.62
Brazilian Naturals	24.03	27.57	14.74
Robustas	26.88	31.13	15.80
Arabicas	53.94	58.34	8.17
Robustas	26.88	31.13	15.80

In million bags

Inventories of green coffee in importing countries, including free ports, totalled 20.35 million bags at the end of March 2007. Table 4 shows changes in certified stocks in the New York (NYBOT) and London (LIFFE) futures markets.

Table 4: NYBOT and LIFFE certified stocks

End of	NYBOT	LIFFE
Sep-02	2.58	2.11
Sep-03	5.04	2.47
Sep-04	5.60	4.04
Sep-05	4.95	3.90
Jan-06	4.19	3.51
Feb-06	4.09	3.26
Mar-06	3.96	3.01
Apr-06	3.81	2.77
May-06	3.80	2.54
Jun-06	3.74	2.23
Jul-06	3.82	1.79
Aug-06	3.93	1.46
Sep-06	4.09	1.82
Oct-06	4.16	1.97
Nov-06	4.12	1.88
Dec-06	4.21	1.61
Jan-07	4.23	1.33
Feb-07	4.26	1.30
Mar-07	4.44	1.33
Apr-07	4.52	1.32
May-07	5.45	1.35
Jun-07	4.75	1.32
Jul-07	4.87	1.35
Aug-07	4.97	1.32
Sep-07	5.04	1.43

In million 60-kg bags

World consumption in 2006 totalled 120.11 million bags compared to 117.72 million bags in 2005, an increase of 2% (Table 5). Domestic consumption in exporting Member countries was 31.04 million bags. In importing countries as a whole consumption totalled some 89.07 million bags in calendar year 2006. For 2007, I estimate world consumption at around 122 million bags in view of the present dynamic of consumption. Table 6 shows per capita consumption in selected importing countries. Retail price figures for March 2007 indicate an increase in all importing countries (Table 7).

Table 5: World consumption*
(Calendar years 2002 – 2006)

	2002	2003	2004	2005	2006 1/
WORLD TOTAL	**109 840**	**111 875**	**117 385**	**117 720**	**120 114**
Producing countries	***27 491***	***28 194***	***29 243***	***30 188***	***31 040***
Brazil	13 685	14 088	14 763	15 438	16 125
Indonesia	1 875	1 958	2 000	2 000	2 000
Ethiopia	1 833	1 833	1 833	1 833	1 833
Mexico	1 500	1 500	1 500	1 500	1 500
Colombia	1 400	1 400	1 400	1 400	1 400
India	1 084	1 142	1 188	1 272	1 337
Philippines	825	873	917	917	917
Venezuela	690	693	700	703	723
Others	4 599	4 708	4 943	5 126	5 206
Importing countries	***82 349***	***83 681***	***88 142***	***87 532***	***89 074***
European Community	***38 637***	***39 764***	***41 083***	***39 374***	***40 985***
Germany	8 498	9 499	10 445	8 665	9 151
Italy	5 182	5 507	5 469	5 552	5 593
France	5 526	5 394	4 929	4 787	5 269
United Kingdom	2 260	2 236	2 458	2 680	3 057
Spain	2 833	2 740	2 705	3 007	3 017
Netherlands	1 574	1 743	1 978	1 927	2 129
Poland	2 201	2 242	2 281	2 267	1 953
Belgium	1 484	1 575	1 281	1 158	1 537
Sweden	1 224	1 178	1 234	1 170	1 315
Finland	970	966	1 034	1 102	1 047
Others	6 884	6 685	7 268	7 058	6 917
USA	19 125	20 193	20 973	20 998	20 667
Japan	6 875	6 770	7 117	7 224	7 268
Other importing countries	***17 713***	***16 954***	***18 969***	***19 937***	***20 153***
Canada	2 302	2 133	2 776	2 945	3 472
Russian Federation	3 301	3 409	2 877	3 040	3 177
Algeria	1 852	1 752	2 159	1 899	1 844
Korea, Republic of	1 306	1 305	1 401	1 394	1 437
Australia	976	873	873	1 098	1 144
Ukraine	431	637	724	977	889
Others	7 545	6 845	8 158	8 583	8 190

In thousand bags
1/ Estimated
* *Data on imports of soluble coffee were revised in accordance with the Decision adopted by the Council in September 2006.*

Table 6: Per capita consumption in selected importing countries (Calendar years 2002 – 2006)

	2002	2003	2004	2005	2006
Algeria	3.54	3.30	4.00	3.47	3.32
Australia	3.00	2.66	2.63	3.27	3.34
Canada	4.41	4.05	5.21	5.48	6.39
European Community	***4.78***	***4.90***	***5.04***	***4.82***	***5.00***
Austria	6.80	5.26	7.24	5.59	4.41
Belgium	8.67	9.16	7.42	6.68	8.84
Bulgaria	2.59	3.04	2.81	3.33	3.28
Cyprus	3.81	3.89	4.32	4.97	3.92
Czech Republic	3.78	3.66	3.62	3.87	3.58
Denmark	8.99	8.06	9.43	8.80	9.19
Estonia	4.89	5.08	5.71	6.48	7.48
Finland	11.19	11.10	11.87	12.60	11.92
France	5.54	5.37	4.88	4.71	5.15
Germany	6.18	6.90	7.58	6.29	6.64
Greece	4.49	5.04	4.72	4.70	4.62
Hungary	3.76	3.82	4.20	3.39	3.56
Ireland	2.08	2.27	3.31	3.23	2.88
Italy	5.36	5.67	5.61	5.68	5.71
Latvia	3.70	4.08	4.01	3.76	4.74
Lithuania	3.60	3.01	3.44	3.38	3.76
Luxembourg	13.22	12.07	15.67	11.66	13.49
Malta	1.36	1.58	2.33	2.44	4.32
Netherlands	5.87	6.46	7.30	7.08	7.80
Poland	3.44	3.51	3.58	3.56	3.07
Portugal	4.17	3.78	3.90	4.29	4.24
Romania	2.02	2.08	2.26	2.38	2.33
Slovakia	3.36	3.54	3.15	3.26	3.13
Slovenia	5.68	5.02	5.55	5.44	5.27
Spain	4.11	3.91	3.79	4.16	4.12
Sweden	8.24	7.89	8.22	7.76	8.69
United Kingdom	2.28	2.25	2.46	2.67	3.03
Japan	3.24	3.18	3.34	3.39	3.41
Korea, Republic of	1.66	1.65	1.76	1.75	1.79
Norway	9.13	8.95	9.23	9.61	9.27
Russian Federation	1.36	1.41	1.20	1.27	1.33
Switzerland	6.73	6.95	5.86	8.89	7.51
Ukraine	0.54	0.80	0.92	1.26	1.15
USA	3.95	4.12	4.24	4.20	4.09

In kilogrammes

Table 7: Retail price of roasted coffee in selected importing countries

	March			% variation
	2005	2006	2007	2007-2006
European Community				
Austria	373.31	406.71	413.23	1.61
Belgium	427.15	399.62	466.09	16.63
Cyprus	553.54	511.78	559.23	9.27
Denmark	438.55	421.08	472.38	12.18
Finland	290.75	275.86	307.52	11.48
France	284.77	274.77	326.74	18.91
Germany	405.61	412.16	440.86	6.96
Italy	642.52	601.34	668.50	11.17
Latvia	391.35	393.99	453.59	15.13
Luxembourg	618.59	597.52	677.51	13.39
Malta	1085.08	1029.86	1169.17	13.53
Netherlands	397.24	379.45		
Poland	268.96	257.28	306.53	19.14
Portugal	503.73	461.23	496.12	7.57
Slovakia	297.43	285.95	365.60	27.85
Slovenia	397.32	373.33	420.44	12.62
Spain	335.02	322.75	372.39	15.38
Sweden	315.39	294.69	339.09	15.07
United Kingdom 1/	1,478.28	1,439.24	1,757.85	22.14
Japan	872.22	761.73	847.79	11.30
Norway	432.23	372.30	435.94	17.09
Switzerland	620.10			
USA	300.90	330.10	347.50	5.27

In US cents/lb
1/ Soluble coffee

In conclusion, I would like to point out that the behaviour of the coffee market in September was very firm notwithstanding increased volatility due to speculative movements triggered by adverse weather conditions in a number of exporting countries. During this month, prices reached levels comparable to those of 1998. I would like to reiterate my congratulations to Members on having concluded a new International Coffee Agreement whose main provisions will strengthen the role of the Organization, particularly in improving the coffee economy and promoting sustainable development.

International Coffee Agreement 2007

The International Coffee Council successfully finalized negotiations on a new International Coffee Agreement (ICA) during its September session (see Resolution 431), which included provisions for the International Coffee Agreement 2007 to enter into force once signatory Governments have deposited their instruments of ratification, acceptance, approval or notification of provisional application. The new Agreement contains significant changes, bringing the International Coffee Organization in line with the requirements of a globalized market economy. The main objective of this Agreement is to strengthen the global coffee sector and promote its sustainable expansion in a market-based environment for the betterment of all participants in the sector.

The most important institutional change in the functioning of the Organization is the elimination of the Executive Board, with the consequent strengthening of the Council as the paramount organ of decision-making in the Organization. Three new committees and a consultative forum will be created: a Projects Committee, with the aim of assisting the Council on projects and fund-raising, a Promotion and Market Development Committee overseeing activities which may include information campaigns, research, capacity-building and studies related to coffee production and consumption, and a Finance and Administration Committee, responsible *inter alia* for supervising the preparation of the Administrative Budget to be presented to the Council. All three Committees are intended to play an advisory role to the Council.

Of special relevance is the creation of the Consultative Forum on Coffee Sector Finance, responding to the needs of increased access to information on topics related to finance and risk management in the coffee sector, with particular emphasis on the needs of small and medium scale producers. The Forum will include representatives from a wide range of areas, including Members, intergovernmental organizations, financial institutions, the private sector, NGOs and others with relevant expertise. The Council will continue to be advised by the Private Sector Consultative Board and the World Coffee Conference.

Other new improved areas are that of statistics, where Article 32 specifically addresses the issue of statistical information for a wide range of fields, eventually incorporating differentiated coffees, and that of studies, surveys and reports, addressed in Article 34, enlarging the scope of action of the Organization to include sustainability aspects of the coffee sector, links between coffee and health, and the analysis of the coffee value chain amongst others.

The 2007 Agreement gives strong emphasis to achieving a sustainable coffee sector bearing in mind the principles and objectives on sustainable development with special reference to poverty eradication. Members and observers have welcomed the successful negotiation of the ICA 2007, which will certainly strengthen the ICO's role as a forum for intergovernmental consultations, facilitate international trade through increased transparency and access to relevant information, and promote a more sustainable coffee economy for the benefit of all stakeholders and particularly of small-scale farmers in coffee producing countries.